Montana.
351.7232 Legislature.
L72daaL Office of the
1989 Department of
Agriculture
including Montana
Agricultural Loan

Office of the Legislative Auditor

State of Montana

Report to the Legislature

May 1990

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1989

Department of Agriculture

Including Montana Agricultural Loan Authority

This report contains 4 recommendations for improving compliance and accounting controls. The recommendations address:

- Setting grain service fees commensurate with costs.
- Complying with state laws and regulations.
- Properly accounting for the hail insurance program.

PLEASE RETURN

STATE DOCUMENTS COLLECTION

OCT 30 1991

MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

89-21

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1987 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Greg Jergeson, Vice Chairman
Senator Tom Keating
Senator Tom Rasmussen
Senator Mike Walker

Representative John Cobb, Chairman
Representative Mike Kadas
Representative Robert Pavlovich
Representative Bruce Simon

MONTANA STATE LIBRARY
S 351.7232 L72das 1989 c.1
Department of Agriculture including Mont
3 0864 00068622 3

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

May 1990

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Agriculture's financial activity for fiscal years 1987-88 and 1988-89. The report contains recommendations concerning compliance with state laws and regulations and the need for a state policy defining the proper method of accounting for the hail insurance program.

The department's written response to the audit recommendations is included in the back of the audit report. We thank the director and the department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1989

Department of Agriculture

Including Montana Agricultural Loan Authority

Members of the audit staff involved in this audit were Donna Aschenbrener, Laurie Evans, Jim Manning, and Victoria Murphy.

Table of Contents

	Appointed and Administrative Officials	iii
	Summary of Recommendations	v
Introduction	Introduction	1
	Background	1
Findings and Recommendations	Grain Services Fees Commensurate With Costs	5
	State Compliance	6
	Hail Insurance	9
	Property Control	11
Prior Audit Recommendations	Prior Audit Recommendations	13
Independent Auditor's Report & Agency Financial Schedules	Summary of Independent Auditor's Report	16
	Independent Auditor's Report	17
	Schedule of Changes in Fund Balances for the Two Fiscal Years Ended June 30, 1989	18
	Schedule of Budgeted Revenue & Transfers In - Estimate & Actual for the Fiscal Year Ended June 30, 1989	19
	Schedule of Budgeted Revenue & Transfers In - Estimate & Actual for the Fiscal Year Ended June 30, 1988	20
	Schedule of Budgeted Program Expenditures by Object and Fund - Budget and Actual for the Fiscal Year Ended June 30, 1989	21
	Schedule of Budgeted Program Expenditures by Object and Fund - Budget and Actual for the Fiscal Year Ended June 30, 1988	22

Table of Contents

	Schedule of Additions and Deductions to Agency Fund Property Held in Trust for the Two Fiscal Years Ended June 30, 1989	23
	Notes to the Financial Schedules	24
Independent Auditor's Report & Authority's Financial Statements	Summary of Independent Auditor's Report	30
	Independent Auditor's Report	31
	Balance Sheet - Enterprise Fund, June 30, 1989	32
	Statement of Revenues, Expenses, and Changes in Retained Earnings, Enterprise Fund, for the Two Fiscal Years Ended June 30, 1989	33
	Statement of Changes in Financial Position, Enterprise Fund, for the Two Fiscal Years Ended June 30, 1989	34
	Notes to the Financial Statements	35
Agency Response	Department of Agriculture	40

Department of Agriculture

Appointed and Administrative Officials

Everett M. Snortland	Director
W. Ralph Peck	Deputy Director
Sandra Luchau	Administrator Centralized Services Division
Gary L. Gingery	Administrator Environmental Management Division
Oran Roy Bjornson	Administrator Plant Industry Division
Michael Murphy	Administrator Agriculture Development Division

Administratively Attached Committees, Boards, and Councils

Montana Wheat and Barley Committee

State Board of Hail Insurance

Agricultural Loan Authority

Montana Mint Committee

Agricultural Development Council

Noxious Weed Management Advisory Council

Vertebrate Pest Management Advisory Council

Pesticide Advisory Council

Alfalfa Seed Committee

Alfalfa Leafcutting Bee Advisory Committee

Summary of Recommendations

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department:

A. Revise the grain services fee structure to ensure fees more accurately reflect the cost of the service.

Agency Response: Concur. See page 40.

B. Monitor the fees on a periodic basis to ensure fees remain commensurate with costs. 6

Agency Response: Concur. See page 40.

Recommendation #2

We recommend the department strengthen procedures to ensure compliance with state laws and regulations. 9

Agency Response: Concur. See page 41.

Recommendation #3

We recommend the department work with Department of Administration, Accounting and Management Support Division, to develop a policy for recording hail losses and premiums. 11

Agency Response: Concur. See page 41.

Recommendation #4

We recommend the department follow established procedures to ensure all equipment is recorded on the Property Accountability Management System. 12

Agency Response: Concur. See page 41.

Introduction

Introduction

We performed a financial-compliance audit of the Department of Agriculture (the department) and the Montana Agricultural Loan Authority (the authority) for the two fiscal years ended June 30, 1988 and 1989. The objectives of the audit were to:

1. Determine the department's compliance with applicable laws and regulations.

2. Make recommendations for improvement in the department's management and internal controls.

3. A. Determine if the department's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1989.

   B. Determine if the authority's financial statements present fairly its financial position at June 30, 1989 and results of its operations for the two years then ended.

4. Determine the implementation status of prior audit recommendations.

This report contains four recommendations to the department. These recommendations address areas where the department can improve compliance with state laws and regulations and develop accounting procedures in accordance with generally accepted accounting principles. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not included in this report but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

Background

The Constitution of the state of Montana mandates the legislature to provide for a Department of Agriculture. The department's statutory functions and responsibilities are to:

1. Encourage and promote the interests of Montana agriculture.

2. Publish agricultural statistics.

3. Represent the agricultural community in product distribution and marketing issues.

4. Maintain a crop market news service.

5. Regulate and protect Montana agricultural activities through the administration of agriculture-related statutes.

The department consists of four divisions:

Centralized Services Division - includes the director's office and provides support to all of the programs in the department by performing administrative responsibilities such as accounting, fiscal management, payroll, personnel, purchasing, property control, systems analysis, computer programming, and legal support.

Environmental Management Division - administers the Montana Pesticides Act, the Crop Insect Detection and Management Act, the Vertebrate Pest Management Act, elements of the Noxious Plant Management Assistance Act, and the department's Chemical Analytical Laboratory. It also provides technical and consultant services to consumers and agricultural producers in the pesticide, analytical chemistry, and pest management program areas.

Plant Industry Division - administers agricultural programs relating to the production, manufacturing, and marketing of commodities exported from or distributed in the state. It provides services to the agricultural industry by: performing professional insect/disease surveys; performing comprehensive feed mill inspections; issuing dealer licenses and permits; registering products; performing analyses of bees; and collecting various assessment fees. Division personnel provide technical information upon request to the industry and to the general public by investigating and resolving consumer complaints. The division also provides support to the Alfalfa Leafcutting Bee and the Montana Mint committees.

Agricultural Development Division - provides administrative support to the Alfalfa Seed Committee, the Montana Wheat and Barley Committee, and the Montana Agricultural Development Council. The division is comprised of three bureaus:

Rural Development - provides direct, low-interest agricultural loans; administers the state hail insurance program; and provides peer counseling, financial consulting and debt mediation services. In fiscal years 1987-88 and 1988-89, the bureau was also responsible for managing the state weed control program. Effective fiscal year 1989-90, the Environmental Management Division administers the weed control program.

Marketing - provides for the development and enhancement of new and existing agricultural crops and value added products; collects and publishes related statistical information; provides research and market development for alfalfa seed, and administers the Montana Growth through Agriculture Act which is a program designed to strengthen and diversify the state's agricultural industry. The Growth through Agriculture program was transferred from the Department of Commerce in February 1989.

Wheat and Barley - promotes market development and scientific research of wheat and barley culture, production, and use.

The Agricultural Development Division provided administrative support to the Montana Agricultural Loan Authority, established by Chapter 580, Laws of 1983. The authority was responsible for administering the Beginning Farm Loan Program, a tax-exempt bond program designed to assist beginning Montana farmers and ranchers in purchasing agricultural land, improvements, and depreciable property. Another function of the authority is the Tax Deduction on Sale of Agricultural Land Program which provides for a state tax deduction to the seller of agricultural land if the sale is made to a qualified beginning farmer. Federal legislation limited the authority's ability to use tax-exempt bonds. Although the authority's existence is

authorized by law, its programs are essentially dormant. During our audit period the only activity occurring was receipt of three $25 application fees from sellers for the tax deduction allowable through the Sale of Agriculture Land Program. From the time of inception, only two loans have been processed. Previously, the authority had obtained loans from the General Fund to cover operating costs of the authority. House Bill 2, Laws of 1987, forgave the loan, program funding was not continued, and the authority's one FTE was eliminated.

Grain Services Fees Commensurate With Costs

Section 80-4-721(4), MCA, requires all fees and other charges for the inspection, grading, weighing, and protein testing of grain shall reflect as nearly as possible the actual cost of the services. The department sets these fees by Administrative Rule. If the fees charged for grain testing are commensurate with costs, the account established for recording the fees and expenses associated with the testing should have a reasonably stable fund balance. We reviewed the revenue, expenditures, and fund balance of the grain services account over the last four fiscal years. Our review shows a fund balance increase each year as shown in the chart below:

Beginning Fund Balance - July 1, 1985	$ 35,048
Fiscal Year 1985-86:	
Revenue	$ 295,134
Expenditures	(241,061)
Net Adjustments	102
Fund Balance - June 30, 1986	89,223
Fiscal Year 1986-87:	
Revenue	380,568
Expenditures	(309,553)
Net Adjustments	1,902
Fund Balance - June 30, 1987	162,140
Fiscal Year 1987-88:	
Revenue	471,538
Expenditures	(365,258)
Net Adjustments	7,459
Direct Entry	19,340
Fund Balance - June 30, 1988	295,219
Fiscal Year 1988-89:	
Revenue	391,447
Expenditures	(367,270)
Net Adjustments	2,397
Fund Balance - June 30, 1989	$ 321,793

Personnel indicated the fees were raised five or six years ago because at that time the laboratory was in a near deficit situation. Personnel also stated the fees are difficult to determine because of the large fluctuations in volumes of grain

tests. Personnel stated they believe it is good management practice to maintain a fund balance equal to the compensated absences payout required for the employees if the state grain laboratory were no longer a state operation. As of December 1989 the payout liability was $32,120. However, the liability for compensated absences is not funded in other state programs.

The increasing fund balance indicates the current fee structure is not commensurate with costs. The department should analyze the cost of providing the service and set fees to cover costs. The department should evaluate the level of fund balance necessary to prevent the account from going negative in a fiscal year. Department personnel should continually monitor total revenue, expenditures, and fund balance in the grain account and adjust fees accordingly to ensure compliance with state law.

Recommendation #1

We recommend the department:

A. Revise the grain services fee structure to ensure fees more accurately reflect the cost of the service.

B. Monitor the fees on a periodic basis to ensure fees remain commensurate with costs.

State Compliance

During our audits we test compliance with selected state laws. As part of the testing, we review a department's compliance with laws that were recently enacted or amended by the legislature. The following three paragraphs discuss instances where the department failed to change procedures or revise applicable forms and instructions in a timely manner to effectively implement amendments to state law. The first three laws mentioned below were amended by the 51st legislative session in 1989. The remaining paragraphs note instances where

the department could improve procedures to ensure compliance with state laws and regulations.

Commercial Feed Tonnage - The department collects an inspection fee from commercial feed dealers as required by section 80-9-206, MCA. During the 51st legislative session, the inspection fee changed from $.10 per ton to $.15 per ton with the first 10 tons exempt from the fee. The law also changed the due date of the fees to January 31 from March 15. Although the department increased the fee to $.15 on the tonnage report, it did not change the due date in the instructions for filing the report, nor was the 10 ton exemption added to the report. We noted instances where licensees filed late because the date on the instructions still read March 15. We also found instances where filers paid for the first 10 tons that were exempt. In July 1989, department personnel sent out a letter describing the changes that occurred as a result of the legislative session, and another letter was included when the commercial feed tonnage report was mailed. Department personnel said they did not print new forms because they wanted to use up the old forms.

Itinerant Merchant Fee - The department licenses itinerant merchants as required by section 80-3-704, MCA. On July 1, 1989 the fee changed from $200 to $60 per location. We reviewed nine licenses approved by the department after July 1, 1989, and found three merchants paid $200 rather than $60. Of the three overpayments, the department refunded only one merchant for the excess payment. According to personnel, repeat license applicants were sent the old form requiring the $200 fee before the legislation was enacted. Due to human error, all the overpayments were not detected. The department should review all the reports filed since the law changed and give refunds for overpayments.

Grain Fees - Section 80-4-721, MCA, requires the department to set fees for inspection, testing, and weighing of grains. The law was amended to require the department to collect payment of the fees for equal shares from the warehouseman and the holder of the warehouse receipt. The department has not divided the fees. According to department personnel, they were not aware that the division of fees was required for all fees collected. They thought the fee split was only applied to inspection fees that were in dispute. The department should revise procedures to divide the fees in accordance with state law.

House Bill 2, Laws of 1987 - According to House Bill 2, Laws of 1987, "Expenditures by a state agency must be in substantial

compliance with an operating budget approved by an approving authority . . ." For executive branch agencies, the Office of Budget and Program Planning is the approving authority. House Bill 2 goes on to define substantial compliance as no expenditure category in an approved budget may be overspent by more than five percent. The operating budget must include expenditures for each program detailed at least by the categories of personal services, operating expenses, equipment, benefits and claims, grants, transfers, and local assistance.

We reviewed the operating budget for each department program on the Statewide Budgeting and Accounting System (SBAS) at fiscal year-end 1987-88 and 1988-89 and compared these to actual current year expenditures. We found one program where the category of equipment expenditures exceeded the budget by more than five percent in each fiscal year.

Division personnel responsible for the program explained that the purchase of a FAX machine at year end 1987-88 put the program category over the allowable five percent by $1,270. Department personnel explained that legislative action moved the Growth through Agriculture Program from the Department of Commerce to the Department of Agriculture. The addition of two FTE positions for this program necessitated a reorganization of the division and a purchase of a desk, chair, and room divider at year end 1988-89. The purchases caused the equipment category to exceed five percent by $1,138. Department personnel indicated that because the purchases occurred at year end, they did not have time to submit an operating budget amendment for the equipment expenditure categories.

Per Diem - We noted instances of inconsistent per diem payments to individual members of the various councils and committees attached to the department. State law entitles members to per diem of $25 per day. During our testing of travel expense vouchers we reviewed claims for two members. One claim was for a member of the Wheat and Barley Committee, the other was for a member of the Noxious Weed Advisory Council. Both of the members were in travel status for three days. One member received $25 for all three days, while the other member only received $25 for one day. Agency personnel indicated the reason the member from the Noxious Weed Council did not get $25 for each day was because the original council members decided to forgo the $25 fee except for the days actually spent in the performance of council duties. Department personnel interpreted the council's decision to mean a reimbursement for the days of meetings and conferences. Since it is necessary for a council member to travel to attend

meetings, this travel time can be considered part of the council duties. Personnel were unable to provide evidence in council's meeting minutes to support the decision to waive the reimbursement. The department should clarify its policy for reimbursements of the $25 per diem and discuss the fee with the current members of the Noxious Weed Advisory Council.

Travel - We tested a total of 10 travel vouchers and found 4 errors. These items are not significant but indicate the department should strengthen the review and approval process for travel vouchers. The four instances involve employees travel being reimbursed at incorrect rates or in an untimely manner. For example, an employee claimed and received an out-of-state meal reimbursement while in the state. Agency personnel indicated the four problems were errors they should have caught as part of their review and approval process.

The issues of noncompliance described above indicate a need for the department to develop procedures to implement the changes made in laws affecting the department's operations. The department also should consider providing training for persons responsible for the preparation of travel expense vouchers and strengthen the review and approval process in order to alleviate the issues of non-compliance with travel laws and regulations.

Recommendation #2

We recommend the department strengthen procedures to ensure compliance with state laws and regulations.

Hail Insurance

The department offers hail insurance for farmers. Revenues and expenditures for the hail insurance program were $1,735,461 and $1,803,894, respectively, for fiscal year 1988-89. The typical coverage period provided by the hail insurance is from May through September which crosses two state fiscal years. When an insurance policy is purchased, the buyer has the option to pay cash, or add the cost to their property taxes and pay in November. The department recognizes revenue

when cash is collected, and recognize losses from hail damage when the damage claim is paid, no matter when the storm occurred. At the present time neither the Department of Agriculture nor the Department of Administration, Accounting and Management Support Division have a formal accounting policy describing the accounting method that should be used for hail losses.

The manner in which the department accounts for hail premiums and losses is not in accordance with generally accepted accounting principles. Recently, the Governmental Accounting Standards Board issued new guidance specifically dealing with insurance accounting. The statement provides several methods of accounting to comply with generally accepted accounting principles. Two methods are discussed below.

The first method is to record revenue proportionately over the term of the insurance policy, and recognize expenditures when the loss is incurred. Adoption of this method would result in the department recognizing approximately half of the revenues in May when policies are sold and recognize the remaining revenue in the next fiscal year since approximately half the insurance coverage is provided in each fiscal year. Under this method, the department would also need to estimate the losses associated with hail storms in May and June, and accrue the estimated expense.

Another method available is the deposit method. The deposit method defers all revenues and losses until the ultimate premium can be reasonably estimated. In the case of the hail program this would be in the second fiscal year when the hail premium refund has been determined. It is quite common for a refund to be issued after an actuary reviews and recommends a reserve amount to the Board of Hail Insurance. With the deposit method, the department would recognize all revenues and expenditures in the second fiscal year (after July 1). In order to adopt this method the department would need to defer the

revenues collected from cash policies sold in the first fiscal year, and claims paid prior to fiscal year end.

Losses from storms occuring in May and June are usually not recorded on SBAS until August (the next fiscal year). Department personnel indicated they were not aware of the accounting rules regarding insurance. Personnel at the Department of Administration, Accounting and Management Support Division, said they were not aware that hail losses occurring in one fiscal year are recorded as expenditures in the subsequent fiscal year. Department of Administration accounting personnel also indicated they did not have a policy governing the accounting method that should be used for the hail insurance program. The department should work with the Department of Administration's Accounting and Management Support Division to develop a policy to ensure hail insurance is accounted for in accordance with generally accepted accounting principles.

Recommendation #3

We recommend the department work with Department of Administration, Accounting and Management Support Division, to develop a policy for recording hail losses and premiums.

Property Control

State policy required state agencies to record all property and equipment in excess of $200 on the Property Accountability Management System (PAMS). Effective July 1, 1988 (fiscal year 1988-89) the capitalization limit was raised to $1,000 but agencies could choose to maintain a lower capitalization limit. The department chose to retain the $200 limit. Federal regulations also require that equipment be identified and accounted for in accordance with state policy. The department purchased equipment with federal funds from the Environmental Protection Agency Pesticide Enforcement Grant (CFDA #66.700).

The department did not recorded approximately $7,200 and $30,100 of equipment purchased with state and federal funds on PAMS for fiscal years 1987-88 and 1988-89, respectively. Even though the department has a policy governing the recording of equipment, department personnel indicated that they cannot find the time to ensure all equipment items are properly recorded on the property system. The department's policy states that divisions submitting equipment purchases over $200 to Centralized Services must also submit a PAMS property update form. If the department enforced its policy, the time needed to maintain a current property record is minimal.

Recommendation #4

We recommend the department follow established procedures to ensure all equipment is recorded on the Property Accountability Management System.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed an audit of the department for the two fiscal years ended June 30, 1986 and 1987. The prior audit report contained three recommendations, which the department implemented. The prior audit of the Agricultural Loan Authority contained no recommendations.

Independent Auditor's Report & Agency Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued on the financial schedules contained in this report is intended to convey to the reader the degree of reliance which can be placed on the amounts presented. The reader may rely on the fairness of the amounts on the schedules presented on pages 18 through 27 when analyzing the financial activity of the Department of Agriculture.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial schedules of the Department of Agriculture for each of the two years ending June 30, 1988 and 1989, as shown on pages 18 through 27. These financial schedules are the responsibility of department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, the department's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present the financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Agriculture for the two years ending June 30, 1988 and 1989, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

March 14, 1990

DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

	General Fund	Special Revenue Fund	Enterprise Fund	Expendable Trust Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1987	$ -0-	$ 732,314	$(188,577)[1]	$5,971,206	$ 824,550
ADDITIONS					
Fiscal Year 1987-88					
Budgeted Revenue & Transfers In	651,905	3,074,387	16,335	1,329,408	261,576
Prior Year Revenue Adjustments	1,257		126		
Prior Year Expenditure Adjustments	604			33	
Support from State of Montana	1,009,400				
Nonbudgeted Revenues & Transfers In				11,044	
Fiscal Year 1988-89					
Budgeted Revenue & Transfers In	680,438	2,350,524	8,217	1,907,507	270,473
Prior Year Revenue Adjustments	3				
Support from State of Montana	888,888				
Cash Transfers In		648,000			
Nonbudgeted Revenue & Transfers In				1,999	
Total Additions	3,232,495	6,072,911	24,678	3,249,991	532,049
REDUCTIONS					
Fiscal Year 1987-88					
Budgeted Expenditures & Transfers Out	1,485,339	2,503,383	10,506	248,202	
Prior Year Expenditure Adjustment		2,139	131		
Prior Year Revenue Adjustment		45,704		574	15,154
Direct Entries to Fund Balance	177,777	(34,813)	(186,523)[1]	(719)	
Nonbudgeted Expenditures & Transfers Out	50		(3,873)	873,184[2]	
Nonbudgeted Prior Year Expenditure Adjustment			(495)		
Cash Transfers Out		42,762			
Fiscal Year 1988-89					
Budgeted Expenditures & Transfers Out	1,559,047	2,801,329	8,172	235,489	
Prior Year Expenditure Adjustments	9,087	29,774		1,258	
Direct Entries to Fund Balance	1,195	22,293	318	491	
Prior Year Revenue Adjustments		17,512	15	508	20,726
Nonbudgeted Expenditures & Transfers Out			141	1,635,766[2]	
Total Reductions	3,232,495	5,430,083	(171,608)	2,994,753	35,880
FUND BALANCE: June 30, 1989	$ -0-	$1,375,142	$ 7,709	$6,226,444	$1,320,719

[1] See note 5, page 26.

[2] See note 8, page 27.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 24 through 27.

GENER
Esti
Actu
Coll
(U

SPECI
Esti
Actu
Coll
(U

ENTER
Esti
Actu
Coll
(U

EXPEN
Esti
Actu
Coll
(U

NONEX
Esti
Actu
Coll
(U

1 Se

2 Se

This
throu

DEPARTMENT OF AGRICULTURE
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

	Licenses and Permits	Charges For Services	Fines & Forfeits	Sale of Documents & Merchandise	Taxes	Investment Earnings	Federal Indirect Cost Recoveries	Rentals, Leases & Royalties	Grants, Contracts, Donations	Federal	Total
GENERAL FUND											
Estimated Revenue	$435,000	$ 252,300	$ 5,000	$ 250							$ 692,550
Actual Revenue	424,420	253,950	1,950	118							680,438
Collections Over (Under) Estimate	$(10,580)	$ 1,650	$(3,050)	$ (132)							$ (12,112)
SPECIAL REVENUE FUND											
Estimated Revenue	$ 90,000	$1,002,500		$17,000	$1,715,000	$ 92,000	$16,000	$2,500	$126,000	$ 394,750	$ 3,455,750
Actual Revenue	80,065	888,244[2]		12,002	958,081[1]	63,816	13,283	2,400	103,474	229,159	2,350,524
Collections Over (Under) Estimate	$ (9,935)	$ (114,256)		$(4,998)	$ (756,919)[1]	$(28,184)	$(2,717)	$ (100)	$(22,526)	$(165,591)	$(1,105,226)
ENTERPRISE FUNDS											
Estimated Revenue		$ 36,000		$ 1,000		$ 1,000					$ 38,000
Actual Revenue		7,230		700		287					8,217
Collections Over (Under) Estimate		$ (28,770)		$ (300)		$ (713)					$ (29,783)
EXPENDABLE TRUST FUNDS											
Estimated Revenue		$1,202,000				$580,000			$ 18,000		$ 1,800,000
Actual Revenue		1,413,060				491,387			3,060		1,907,507
Collections Over (Under) Estimate		$ 211,060				$(88,613)			$(14,940)		$ 107,507
NONEXPENDABLE TRUST FUNDS											
Estimated Revenue					$ 200,000	$125,000					$ 325,000
Actual Revenue					144,752	125,721					270,473
Collections Over (Under) Estimate					$ (55,248)	$ 721					$ (54,527)

[1] See footnote 6, page 26.

[2] See footnote 7, page 27.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 24 through 27.

GENERAL FUND
Estimated Reve
Actual Revenue
Collections Ov
(Under) Esti

SPECIAL REVENUE
Estimated Reve
Actual Revenue
Collections Ov
(Under) Esti

ENTERPRISE FUND
Estimated Reve
Actual Revenue
Collections Ov
(Under) Esti

EXPENDABLE TRUS
Estimated Reve
Actual Revenue
Collections Ov
(Under) Est

NONEXPENDABLE T
Estimated Reve
Actual Revenue
Collections Ov
(Under) Est

[1] See footnote

This schedule i

DEPARTMENT OF AGRICULTURE
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

	Licenses and Permits	Charges For Services	Fines & Forfeits	Sale of Documents & Merchandise	Taxes	Investment Earnings	Federal Indirect Cost Recoveries	Rentals, Leases & Royalties	Miscellaneous	Grants, Contracts, Donations	Income Collections & Transfers	Federal	Total
GENERAL FUND													
Estimated Revenue	$440,000	$ 197,300	$3,000	$ 250									$ 640,550
Actual Revenue	437,309	211,450	2,900	246									651,905
Collections Over (Under) Estimate	$ (2,691)	$ 14,150	$ (100)	$ (4)									$ 11,355
SPECIAL REVENUE FUND													
Estimated Revenue	$ 80,000	$1,045,500		$17,650	$1,900,000	$ 69,500	$15,500	$1,500	$15,000	$ 82,680	$139,042	$353,250	$3,719,622
Actual Revenue	77,469	925,998[1]		12,205	1,514,579[1]	56,961	13,226	2,400	7,775	49,948	139,042	274,784	3,074,387
Collections Over (Under) Estimate	$ (2,531)	$ (119,502)		$(5,445)	$ (385,421)	$(12,539)	$(2,274)	$ 900	$(7,225)	$(32,732)	$ 0	$(78,466)	$ (645,235)
ENTERPRISE FUNDS													
Estimated Revenue		$ 45,550		$ 2,000		$ 1,000							$ 48,550
Actual Revenue		14,477		1,725		133							16,335
Collections Over (Under) Estimate		$ (31,073)		$ (275)		$ (867)							$ (32,215)
EXPENDABLE TRUST FUNDS													
Estimated Revenue		$1,202,000				$500,000				$ 18,000			$1,720,000
Actual Revenue		901,530				424,423				3,655			1,329,408
Collections Over (Under) Estimate		$ (300,470)				$(75,577)				$(14,345)			$ (390,592)
NONEXPENDABLE TRUST FUNDS													
Estimated Revenue					$ 200,000	$125,000							$ 325,000
Actual Revenue					187,006	74,570							261,576
Collections Over (Under) Estimate					$ (12,994)	$(50,430)							$ (63,424)

[1] See footnote 7, page 27.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 24 through 27.

DEPARTMENT OF AGRICULTURE
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT
AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

	Centralized Services Division	Environmental Management Division	Plant Industry Division	Agricultural Development	Total
PERSONAL SERVICES					
Salaries	$ 281,399	$ 544,908	$ 503,488	$ 349,338	$ 1,679,133
Hourly Wages			62,728	35,958	98,686
Other Compensation			50	7,363	7,413
Employee Benefits	55,152	132,818	128,331	80,371	396,672
Total	336,551	677,726	694,597	473,030	2,181,904
OPERATING EXPENSES					
Contracted Services	6,915	23,449	35,659	144,733	210,756
Supplies & Materials	5,817	49,248	11,942	8,491	75,498
Communications	8,005	26,557	25,210	47,982	107,754
Travel	8,552	39,921	27,565	90,099	166,137
Rent	14,236	23,815	16,629	22,254	76,934
Utilities			6,678		6,678
Repair & Maintenance	1,970	42,448	6,272	2,642	53,332
Other Expenses	6,216	6,176	2,170	300,350	314,912
Total	51,711	211,614	132,125	616,551	1,012,001
EQUIPMENT AND INTANGIBLE ASSETS					
Equipment	1,897	20,061	9,072	21,537	52,567
Intangible Assets	240	1,761	1,421	1,324	4,746
Total	2,137	21,822	10,493	22,861	57,313
GRANTS					
From State Sources				1,351,528	1,351,528
Total				1,351,528	1,351,528
DEBT SERVICE					
Leases				1,291	1,291
Total				1,291	1,291
TOTAL PROGRAM EXPENDITURES	$ 390,399	$ 911,162	$ 837,215	$ 2,465,261	$ 4,604,037
GENERAL FUND					
Budgeted	$ 243,085	$ 623,883	$ 403,804	$ 313,098	$ 1,583,870
Actual	241,588	619,631	403,155	294,673	1,559,047
Unspent Budget Authority	$ 1,497	$ 4,252	$ 649	$ 18,425	$ 24,823
SPECIAL REVENUE FUND					
Budgeted	$ 123,555	$ 410,945	$ 525,512	$ 2,756,914	$ 3,816,926
Actual	120,002	291,531	425,888	1,963,908	2,801,329
Unspent Budget Authority	$ 3,553	$ 119,414	$ 99,624	$ 793,006[1]	$ 1,015,597
ENTERPRISE FUNDS					
Budgeted			$ 33,490		$ 33,490
Actual			8,172		8,172
Unspent Budget Authority			$ 25,318		$ 25,318
EXPENDABLE TRUST FUNDS					
Budgeted	$ 28,809			$ 229,843	$ 258,652
Actual	28,809			206,680	235,489
Unspent Budget Authority	$ -0-			$ 23,163	$ 23,163

[1] See footnote 6 page 26.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 24 through 27.

DEPARTMENT OF AGRICULTURE
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT
AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

	Centralized Services Division	Environmental Management Division	Plant Industry Division	Agricultural Development	Total
PERSONAL SERVICES					
Salaries	$257,166	$537,123	$502,907	$ 332,075	$1,629,271
Hourly Wages			71,511	38,889	110,400
Other Compensation		150	50	7,400	7,600
Employee Benefits	49,964	133,612	128,386	74,545	386,507
Total	307,130	670,885	702,854	452,909	2,133,778
OPERATING EXPENSES					
Contracted Services	37,692	27,469	41,237	66,861	173,259
Supplies & Materials	6,821	42,019	13,428	16,110	78,378
Communications	8,745	28,684	25,637	44,298	107,364
Travel	13,074	35,355	24,731	81,975	155,135
Rent	15,209	24,907	16,932	20,475	77,523
Utilities			4,608		4,608
Repair & Maintenance	1,877	41,802	3,983	2,646	50,308
Other Expenses	6,305	4,527	3,140	247,569	261,541
Total	89,723	204,763	133,696	479,934	908,116
EQUIPMENT AND INTANGIBLE ASSETS					
Equipment	5,965	75,973	12,996	18,285	113,219
Intangible Assets	179	1,482		438	2,099
Total	6,144	77,455	12,996	18,723	115,318
GRANTS					
From State Sources				1,077,512	1,077,512
From Other Sources				11,416	11,416
Total				1,088,928	1,088,928
DEBT SERVICE					
Leases				1,290	1,290
Total				1,290	1,290
TOTAL PROGRAM EXPENDITURES	$402,997	$953,103	$849,546	$2,041,784	$4,247,430
GENERAL FUND					
Budgeted	$233,807	$605,879	$422,997	$ 320,211	$1,582,894
Actual	229,772	595,368	396,178	264,021	1,485,339
Unspent Budget Authority	$ 4,035	$ 10,511	$ 26,819	$ 56,190	$ 97,555
SPECIAL REVENUE FUND					
Budgeted	$162,143	$433,518	$542,367	$2,240,347	$3,378,375
Actual	142,999	357,735	442,862	1,559,787	2,503,383
Unspent Budget Authority	$ 19,144	$ 75,783	$ 99,505	$ 680,560[1]	$ 874,992
ENTERPRISE FUNDS					
Budgeted			$ 33,289		$ 33,289
Actual			10,506		10,506
Unspent Budget Authority			$ 22,783		$ 22,783
EXPENDABLE TRUST FUNDS					
Budgeted	$ 30,226			$ 231,384	$ 261,610
Actual	30,226			217,976	248,202
Unspent Budget Authority	$ 0			$ 13,408	$ 13,408

[1] See footnote 6 page 26.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 24 through 27.

DEPARTMENT OF AGRICULTURE
SCHEDULE OF ADDITIONS AND DEDUCTIONS
TO AGENCY FUND PROPERTY HELD IN TRUST
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

Property Held in Trust, July 1, 1987	$2,796,273[1]
Additions:	
Fiscal Year 1987-88	
Nonbudgeted Receipts	3,159,944
Fiscal Year 1988-89	
Nonbudgeted Receipts	2,587,300
Total Additions	5,747,244
Deductions:	
Fiscal Year 1987-88	
Nonbudgeted Disbursements	4,476,724
Fiscal Year 1988-89	
Nonbudgeted Disbursements	2,114,934
Total Deductions	6,591,658
Property Held in Trust, June 30, 1989	$1,951,859[1]

[1] See footnote 9 on page 27.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 24 through 27.

MONTANA DEPARTMENT OF AGRICULTURE

NOTES TO THE FINANCIAL SCHEDULES

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The state of Montana uses the modified accrual basis of accounting for the General Fund, Special Revenue Fund, Agency Fund, and the Expendable Trust Fund. Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy:

-- If the appropriation provided funds to complete a given project, the entire amount of a contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.

-- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.

-- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

The accrual basis of accounting is used for the Enterprise Fund and the Nonexpendable Trust Fund. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

B. Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the department:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriations are required to spend from this fund type. This activity includes the registration and inspections of fertilizers and feeds; grain inspection; wheat,

barley, and alfalfa seed market promotion; and noxious weed management projects.

Enterprise - to account for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the legislature is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or b) where the legislature has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Enterprise Fund at the department includes the Alfalfa Leaf Cutting Bee Program and the Montana Agricultural Loan Authority.

Trust and Agency - to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Agency Funds, Expendable Trust Funds, and Nonexpendable Trust Funds.

The Agency Fund holds certificates of deposit or letters of credit from commercial pesticide applicators, produce wholesalers, commodity dealers, and public warehousemen to ensure that the public will be compensated in the case of negligence.

The Expendable Trust Fund includes the Hail Insurance Program, Rural Development assets transferred to the state under the Rural Rehabilitation Corporation Liquidation Act, and surety bond proceeds held on behalf of creditors of the bankrupt Coast Trading Company.

The Nonexpendable Trust Fund holds 50 percent of the proceeds from a surcharge assessed on registered herbicides sold for consumer use. When the principal in this fund reaches $2.5 million, any interest generated may be expended for noxious weed management projects, as long as the principal remains at $2.5 million.

2. ANNUAL AND SICK LEAVE

Employees at the department accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the financial schedules of the Department of Agriculture. Expenditures for termination pay currently are absorbed in the annual operational costs of the department. At June 30, 1989, the department had an approximate liability of $177,043 for annual leave and $101,707 for sick leave.

3. EMPLOYEES' RETIREMENT SYSTEM

The Department of Agriculture employees are covered by the Montana Public Employees' Retirement System (PERS). The department's contribution to this plan was $104,198 in fiscal year 1987-88 and $107,416 in fiscal year 1988-89.

4. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency's Schedule of Changes in Fund Balances, the beginning and ending fund balance will always be zero for the General Fund.

5. AGRICULTURAL LOAN AUTHORITY

A. Negative Fund Balance - The Montana Agricultural Loan Authority had sustained operating losses every year. The negative beginning fund balance reflects these losses.

B. Direct Entries to Fund Balance - The Montana Agricultural Loan Authority had an inter-entity loan from the General Fund for $197,294. The 50th Legislative Session forgave the loan. In fiscal year 1987-88 the department made a loan payment of $11,145 and wrote off the remaining debt of $186,149.

6. BUDGET VERSUS ACTUAL REVENUE AND EXPENDITURES

A. Agricultural Development Fiscal Year 1988-89

The majority of this program's expenditures are for wheat association membership payments and grants to do research and promote Montana wheat and barley. Taxes assessed on participating producers' wheat and barley crops provide funding for the program. The department establishes revenue estimates based on historical information of taxes collected in previous years. Fiscal year 1988-89 tax revenue collected is low because of the drought and Russian wheat aphid in the 1989 crop year. Accordingly, expenditures were lower than anticipated because moneys were not available for grants.

B. Agricultural Development Fiscal Year 1987-88

The majority of this program's appropriations were set up as biennial appropriations. The budget reflects the total appropriation, while actual expenditures reflect only one year's worth of spending.

7. VEHICLE WEED FEE

The Department of Agriculture receives fee revenue, $.50 per vehicle, that is collected when vehicles are licensed through county treasurers. During fiscal year 1987-88 and fiscal year 1988-89 the department collected $334,000 and $381,000, respectively. The department classified this revenue as charges for services. The money should be classified as taxes. The department reclassified the vehicle weed fee as taxes in fiscal year 1989-90.

8. NONBUDGETED EXPENDITURES

The Department of Agriculture provides hail insurance for farmers. The losses from hail storms are recorded as nonbudgeted expenditures in the Expendable Trust Fund.

9. AGENCY FUND

The Agency Fund holds certificates of deposit from commercial pesticide applicators ensuring that the public would be compensated if the applicator was negligent, and the department also holds certificates of deposit and letters of credit from commodity dealers, produce wholesalers, and public warehousemen to meet bonding requirements. Commodity dealers, produce wholesalers, and public warehousemen may also insure themselves through private bonding companies. The amount of certificates of deposit and letters of credit held by the Department of Agriculture for the dealers, wholesalers, and warehousemen will vary significantly from year to year, depending on the number of active members and their method of coverage.

Independent Auditor's Report & Authority's Financial Statements

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued on the financial statements contained in this report is intended to convey to the reader the degree of reliance which can be placed on the amounts presented. The reader may rely on the fairness of the statements presented on pages 32 through 37 when analyzing the financial activity of the Montana Agriculture Loan Authority.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying balance sheet of the Montana Agricultural Loan Authority as of June 30, 1989 and the related statement of revenues, expenses and changes in retained earnings and the statement of changes in financial position for the two fiscal years then ended. These financial statements are the responsibility of the authority's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Agricultural Loan Authority as of June 30, 1989, and the results of its operation for the two years then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the authority will continue as a going concern. As discussed in Note 5 to the financial statements, the program is essentially dormant which raises substantial doubt about its ability to continue as a going concern. Also, as discussed in Note 5, the program is subject to a legislative review during the 52nd legislative session. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

March 14, 1990

MONTANA AGRICULTURAL LOAN AUTHORITY
DEPARTMENT OF AGRICULTURE
BALANCE SHEET - ENTERPRISE FUND
JUNE 30, 1989

Assets	
Cash	$ 75
Equipment (net of accumulated depreciation of $646)	849
Total Assets	$924
Liabilities and Retained Earnings	
Retained Earnings	$924
Total Liabilities and Retained Earnings	$924

The notes to the financial statements are an integral part of this statement.

MONTANA AGRICULTURAL LOAN AUTHORITY
DEPARTMENT OF AGRICULTURE
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
ENTERPRISE FUND
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

Operating Revenue	
Fiscal Year 1987-88	$ 25
Fiscal Year 1988-89	50
Total Operating Revenue	75
Operating Expenses:	
Fiscal Year 1987-88	134
Fiscal Year 1988-89	134
Total Operating Expenses	268
Prior Year Expenditure Adjustments	
Fiscal Year 1987-88	18
Fiscal Year 1988-89	2,855
Total	2,873
Net Income	$ 2,680
Beginning Retained Earnings, July 1, 1987 (as previously reported)	$(142,120)
Direct Entries to Retained Earnings (see footnote 4)	140,364
Adjusted Retained Earnings	(1,756)
Retained Earnings, June 30, 1989	$ 924

The notes to the financial statements are an integral part of this statement.

MONTANA AGRICULTURAL LOAN AUTHORITY
DEPARTMENT OF AGRICULTURE
STATEMENT OF CHANGES IN FINANCIAL POSITION
ENTERPRISE FUND
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

Sources of Working Capital:	
Operations:	
Net income (loss)	$ 2,680
Write off of inter-entity loans (see footnote 4)	140,364
Total sources	143,044
Items not requiring working capital	
Add depreciation	268
Working capital provided by operations	143,312
Uses of Working Capital:	-0-
Net increase (decrease) in working capital	$ 143,312
Elements of Net Increase (Decrease) in Working Capital:	
Cash and Cash Equivalent	$ (11,052)
Accounts/Loans Payable	151,509
Liability for Compensated Absences	2,855
Net increase (decrease) in working capital	$ 143,312

The notes to the financial statements are an integral part of this statement.

MONTANA AGRICULTURAL LOAN AUTHORITY

DEPARTMENT OF AGRICULTURE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Montana Agricultural Loan Authority was responsible for administering the activities of the Beginning Farm Loan Program and the Tax Deduction on Sale of Agricultural Land Program. These programs were designed to help private lenders assist beginning farmers and ranchers in acquiring agricultural property.

A. Basis of Accounting

The financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS) with adjustments. The authority uses the accrual basis of accounting for the Enterprise Fund. Under this basis, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable, and attributable to the program.

B. Description of Fund

The fund presented and its relationship to the State Treasury Fund structure is as follows:

PROPRIETARY FUND TYPE

Enterprise Fund - To account for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the legislature is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the legislature has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Insurance

The authority is insured through the Insurance Division of the Department of Administration.

2. ANNUAL AND SICK LEAVE

Annual leave and sick leave costs are not recorded until leave is taken. Upon termination, qualifying employees with unused accumulated annual leave and sick leave receive 100 percent payment for annual leave and 25 percent payment for sick leave. As of June 30, 1989, the authority had no liability for vacation leave and sick leave. The beginning balance of $2,855 transferred with the FTE to the Department of Agriculture.

3. LONG-TERM NOTES RECEIVABLE, BONDS PAYABLE

The authority issued two bonds during fiscal year 1984-85 totalling $193,800. The debt does not constitute a liability to the state of Montana and is not reflected on the financial statements of the authority. The bond proceeds were used to purchase the notes from the lending institution. These notes were then assigned to the lender as collateral for the bonds. The terms of each note and its related bond are identical. Interest rates are variable on an annual basis.

Long-term debt and the related long-term notes receivable consist of the following as of June 30, 1989:

Bond Amount $81,600

8.75 percent bond payable. Note receivable in 20 annual installments of $8,781 (including principal and interest). Payments due beginning May 3, 1986. Principal outstanding at June 30, 1989 was $70,552.

Bond Amount $112,200

9.3 percent bond payable. Note receivable in 9 annual installments of $17,719 (including principal and interest). Payments due beginning May 3, 1986. Principal outstanding at June 30, 1989 was $77,142.

4. INTER-ENTITY LOAN

House Bill 447, Laws of 1983, gave authority for a General Fund loan of $97,969 for fiscal year 1983-84 and $99,325 for fiscal year 1984-85. The loan was to cover the authority's initial operating costs. House Bill 500, Laws of 1985, extended the repayment of the loan to June 30, 1987. House Bill 2, Laws of 1987, forgave the loan, effective July 1, 1987. The loan was removed from SBAS in

January 1988. The amount of inter-entity loan reflected on the financial statements includes prior audit adjustments of $45,785 and a $11,145 partial repayment of the loan.

5. PROGRAM STATUS

The authority was essentially inactive during the two fiscal years ending June 30, 1989. It collected $75 of revenue from applicant fees. State law, section 80-12-403, MCA, states "The agricultural loan authority program must be reviewed by the legislature at the third regular legislative session following the first sale of bonds. . ." The 52nd Legislature represents the third session, so the program is scheduled for review in 1991.

Agency Response

STAN STEPHENS
GOVERNOR

STATE OF MONTANA
DEPARTMENT OF AGRICULTURE
OFFICE OF THE DIRECTOR
AGRICULTURE/LIVESTOCK BLDG
CAPITOL STATION
HELENA, MONTANA 59620-0201

TELEPHONE
AREA CODE 406
444-3144

FAX 406 444-5409

EVERETT M. SNORTLAND
DIRECTOR

May 15, 1990

[illegible]
1990
[illegible]

Mr. Scott A. Seacat
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

I would like to thank you and your staff for the courteous and professional manner in which the financial-compliance audit of the Department of Agriculture was conducted. Following are the responses to the audit recommendations of the two fiscal years ending June 30, 1989:

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT:

A. REVISE THE GRAIN SERVICE FEE STRUCTURE TO ENSURE FEES MORE ACCURATELY REFLECT THE COST OF THE SERVICE.

B. MONITOR THE FEES ON A PERIODIC BASIS TO ENSURE FEES REMAIN COMMENSURATE WITH COSTS.

RESPONSE:

A. The department concurs and is currently reviewing the State Grain Laboratory operating costs and projected revenues. We have proposed a revised fee schedule with changes currently being processed in accordance with the Administrative Rules of Montana.

B. The State Grain Laboratory and the Director's office will continue to monitor fees and make appropriate adjustments on an annualized basis.

An Affirmative Action/Equal Employment Opportunity Employer

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT STRENGTHEN PROCEDURES TO ENSURE COMPLIANCE WITH STATE LAWS AND REGULATIONS.

RESPONSE: The department concurs and has currently implemented procedures to alleviate issues of non-compliance with state laws and regulations by strengthening the review and approval process and providing ongoing training to appropriate staff.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT WORK WITH DEPARTMENT OF ADMINISTRATION, ACCOUNTING AND MANAGEMENT SUPPORT DIVISION, TO DEVELOP A POLICY FOR RECORDING HAIL LOSSES AND PREMIUMS.

RESPONSE: The department concurs and will request the Department of Administration in developing a policy for recording hail losses and premiums in accordance with generally accepted accounting principles for completion by FYE '91.

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT FOLLOW ESTABLISHED PROCEDURES TO ENSURE ALL EQUIPMENT IS RECORDED ON THE PROPERTY ACCOUNTABILITY MANAGEMENT SYSTEM.

RESPONSE: The department concurs and is currently in the process of strengthening the enforcement of department policy by processing payments and PAMS forms simultaneously. Amounts referenced in audit report are currently in the process of being recorded and updated on PAMS for completion by FYE '90.

If you have any questions concerning the department's response, please feel free to contact me.

Sincerely,

Everett M. Snortland

Everett M. Snortland
Director

SL/sl/z:emsola.89